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ESTABLISHMENT OF THE WORK PROGRAMME OF THE STANDING COMMITTEE

Issues for consideration in the establishment of the work programme

Note by the UNCTAD secretariat

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INTRODUCTION

1. The Cartagena Commitment on a new partnership for development adopted at UNCTAD VIII recognized the need for revitalizing and strengthening ECDC. It viewed ECDC as an important component of efforts to promote economic growth in developing countries and as a means of securing the integration of developing countries into the world economy. Furthermore, the Commitment called for the ECDC dimension to be taken into account in formulating national macroeconomic policies, as well as in structural adjustment programmes financed by multilateral institutions ("Report of the United Nations Conference on Trade and Development on its eighth session" (TD/364), paras. 228, 229, 234, 235 and 236).

2. Against this backdrop and in pursuance of the institutional parts of the Cartagena Commitment, the Trade and Development Board, at the second part of its thirty-eighth session, held from 21 April to 7 May 1992, adopted the terms of reference of the new Standing Committee on ECDC. In order to assist the Standing Committee in establishing a work programme, the present note provides an overview of issues and problems that might be addressed by the Committee in accordance with its terms of reference.

ISSUES ARISING OUT OF THE TERMS OF REFERENCE OF THE STANDING COMMITTEE: ELEMENTS OF THE WORK PROGRAMME

3. This section reviews some problems experienced by developing countries in the area of ECDC and identifies issues and measures for strengthening ECDC which can serve as elements of a work programme.

A. Revitalizing trade liberalization among members of groupings and addressing impediments to intra-group trade (paragraphs 1 and 2 of the terms of reference)

4. Trade expansion as an engine of economic growth and integration has been the centre-piece of ECDC efforts. Results in this area, however, have fallen short of expectations. In most regional and subregional groupings, intra-group trade has accounted for only a small share of total trade. This has been partially because trade liberalization programmes, the main instruments for the promotion of intra-group trade expansion, have not, in general, been implemented in the manner and within the time-frame agreed upon by member countries. Other deficiencies have been the relatively small number of products granted concessions, long national exclusion lists of products, the low tariff preferences effectively granted and the existence of non-tariff barriers on products covered under concessions. In some cases, the flow of goods, people and information within groupings has been restricted by physical and informational barriers. Other structural barriers to intra-group trade expansion have included a lack of marketing networks, trade financing deficiencies and monetary and exchange rate problems (see below).

5. In all groupings, especially those whose members are at disparate levels of economic development, the gains from closer economic cooperation have tended to be concentrated in the countries that were relatively more advanced. On the other hand, the implementation of intra-group trade liberalization programmes has

been affected by the special treatment often given to less developed countries' members of groupings. 1/ These problems need to be addressed through measures which aim at developing and diversifying the production capacities of less developed countries' members of groupings (see section B below). More generally, trade cooperation requires other types of sectoral cooperation if it is to be equitable and beneficial to all.

6. Another set of problems has arisen out of national differences within groupings in foreign investment regulations, in trade regimes pertaining to non-members and in investment incentives and subsidies. Some countries within groupings have become conduits for domestically produced goods with high foreign content or for imports from outside the group. In the case of investment incentives, subsidized goods have moved across borders, benefiting non-national consumers. On the other hand, in groupings that had common local content standards, countries linked to outside producers stood to lose if rules of origin were restrictive.

7. Policy analysis and recommendations in this area should tackle the whole spectrum of issues connected with the launching, strengthening and deepening of regional and subregional trade liberalization programmes, while ensuring at the same time that these processes become stepping stones for the gradual integration of developing countries into the world economy.

8. The Committee might wish, in this connection, to focus its attention on changes in trade control measures of developing countries and modalities for further reductions in intra-group tariffs and non-tariff barriers, 2/ especially in products where some member countries have comparative advantages, where there are natural resource complementarities among them and where the level of development of some members bestows dynamic comparative advantages in relation to others. Regarding physical barriers, the Standing Committee may wish to identify measures that might be taken to support groupings in developing, maintaining and strengthening efficient and reliable road, rail, air and ocean transport linkages and communication networks.

9. The Committee may wish to examine possible measures to address structural impediments to intra-group trade, such as the establishment of trade information systems, the facilitation and harmonization of customs and trade documentation procedures and the enactment of common legal provisions governing the establishment and the operation of trade companies. The Committee might also wish to address specific questions arising out of in-group trade liberalization. These include questions such as the loss of fiscal revenue as a result of trade liberalization, the special treatment of less developed member countries and the role of the rules of origin in encouraging trade expansion while at the same time deepening production processes.

B. Creating and strengthening productive and export capacities within groupings (paragraphs 1 and 2 of the terms of reference)

10. In most developing countries, existing production patterns, especially of exportable products, are designed mainly to serve markets in industrialized countries. Moreover, the low level of industrialization in many developing

countries limits their exports, which consist mainly of raw materials and unprocessed commodities. Without complementary and diversified production structures, intra-group trade expansion may not materialize in the long term, even when intra-group trade liberalization programmes are enacted: trade liberalization is not a sufficient condition for intra-group trade expansion. Consequently, it is essential that closer complementary linkages of production, commodity-based or non-commodity-based, be developed between members of groupings. In addition, there is a need for an overall increase in the efficiency and competitiveness of production sectors.

11. The Committee might wish to undertake analysis and make recommendations concerning the development of integrated regional and subregional production programmes, with corresponding objectives and targets to be achieved through practical and realistic joint-venture production projects. These production programmes would be designed to expand and diversify complementary production structures of countries members of groupings so as to enable them to take full advantage of the improved market access flowing from preferential trade liberalization programmes, as well as to increase exports in general. Other sectors, such as technology and human resource development, could be the subject of similar cooperation.

C. Strengthening and expanding monetary and financial cooperation within groupings (paragraphs 2, 4 and 7 of the terms of reference)

12. In the area of financial and monetary cooperation, the operation of the clearing and payments arrangements has been hampered by problems of inconvertibility and exchange control. In the absence of a rough balance of trade over a period of time, a commitment to intra-arrangement convertibility and full freedom of transfer of currencies and foreign exchange proceeds is critical for the viability and growth of the clearance system. However, this has remained hostage to the weak overall balance-of-payments position of many members. In many arrangements, some countries have persisted as creditors or debitors, creating in the process important arrears and giving rise to intra-group debt problems. There have also been examples of certain products being excluded from the clearing system. All of this has served to diminish the attractiveness of intra-group trade and to undermine its growth.

13. A significant deficiency in most developing country clearance and payments arrangements is the absence of credit lines offered to partners and the suspension of bilateral credit lines in the wake of the debt problems of the 1980s. Other aspects of financial cooperation, such as banking cooperation, regional capital market cooperation and cooperation in specific areas like trade financing, were also hampered by the weak financial position of most developing countries in the 1980s.

14. As long as developing countries have currency convertibility problems and foreign-exchange constraints, clearing and payments arrangements will continue to be useful and relevant to them. These arrangements help developing countries by facilitating trade and financial exchange, by economizing in the use of foreign exchange and by furthering monetary and financial cooperation among their central banks. The contribution of the clearing and payments arrangements, however,

depends on the coverage of their membership and the coverage of the trade and financial services that they clear. Consequently, enlarging the membership of these arrangements, lifting any exclusions of specific goods from the clearing system, and linking the settlement of claims among them would all enhance their value and increase the multilateral aspect of their operation. At the same time, effective clearing and payments arrangements also require national policy actions, notably ensuring that the official exchange rate is close to the market rate and allowing unfettered currency convertibility and free disposition of foreign exchange within the grouping.

15. Members of regional and subregional cooperation groupings ought to be urged to join such mechanisms if they have not done so and to abide by the commitments entailed. Additionally, measures to build some credit features and swap facilities into these arrangements (as in the Asian Clearing Union) would be useful. The Committee might wish to formulate recommendations to this effect.

16. The vast majority of developing countries do not have adequate trade-finance facilities. The regional mechanisms which exist are also inadequate. 3/ The gaps are particularly large in the area of pre-shipment financing and non-traditional exports. Hence, measures to establish and develop national trade-financing schemes, as well as regional and subregional schemes, to increase their resources and to open them up to private sector participation, foreign and national, are necessary to increase the exports of developing countries and to enhance intra-developing country trade. In this connection, the terms of reference of the Committee call upon it to keep under review the possibility of establishing an interregional trade-financing facility. The Committee may wish to undertake similar work with respect to other regional and subregional trade-financing schemes.

17. Financial cooperation in banking and in establishing regional financial markets and regional financial instruments of all kinds is important to developing countries. 4/ The Committee might wish to identify the actions which are necessary for the functioning of unified markets. The topics that might be addressed include legislative and regulatory measures, tax treatment, banking organization and the conditions governing underwriting, the issuance of equity, the ownership and transfer of financial instruments and equity listings on national stock exchanges.

D. Creating and enhancing business networks within groupings, including cooperation among their enterprises (paragraphs 2 and 7 of the terms of reference)

18. In the large majority of groupings, the enterprise sector has usually been a passive, unattached spectator to the ECDC process, which has been essentially an intergovernmental activity. The lack of effective participation by the enterprise sector has hampered the ECDC process inasmuch as such economic operators impart dynamism into ECDC by implementing and carrying forward the initiatives therein. Their absence resulted to some extent from the lack of well developed local private enterprise sectors. To correct this deficiency and build up local entrepreneurship, members of groupings have in the past tended to rely on rules of origin requirements. However, these rules, in particular national

equity requirements, have not succeeded in achieving their objective. By tending to be too stringent, they underestimated the major role that foreign capital plays in many developing countries.

19. The Standing Committee may therefore wish to consider undertaking policy analysis and formulating recommendations to promote enterprise cooperation within groupings, to bring the enterprise sector into intergovernmental activities and to create institutional mechanisms, such as business information networks, which would promote and enhance contacts and cooperation among enterprises, among their organizations (chambers of commerce and industry, associations of trading companies) and among economic operators themselves (such as industrialists, businessmen and traders). This would also involve encouraging the enterprise sector to become actively engaged in designing and implementating economic integration policies, especially regarding production and trade, at both the regional and interregional levels.

E. Exploring new potentials and identifying new areas of complementarity for fostering economic cooperation among developing countries and other interested countries (paragraphs 3 and 5 of the terms of reference)

20. The exploration of new potentials for cooperation has various dimensions. One is cooperation in new areas of emerging importance; another is cooperation among new partners. In the first, the task is one of exploiting latent complementarities, pooling resources and creating new modes and institutional forms of cooperation. In the second, the potential lies in new partnerships among and with countries. Paragraph 1 of the terms of reference of the Committee opens the possibility of bringing the economies in transition into such cooperation and of looking into relevant aspects of developed-developing country cooperation, such as NAFTA and the Pacific basin initiative. Another possibility involves group-to-group cooperation of developing and developed countries, such as the present European Community cooperation with developing country groupings. The Committee might wish to draw up an agenda for exploring these new dimensions.

F. Support measures by the international community to facilitate specific economic cooperation programmes and projects and to strengthen technical cooperation (paragraphs 3 and 8 of the terms of reference)

21. Paragraphs 3 and 8 of the terms of reference imply two sets of support activities to complement the efforts of developing countries: activities and technical assistance by the international community to help meet the needs and requirements of subregional, regional and interregional groupings, and activities under a possible programme of operational activities by UNCTAD in support of ECDC. The latter could involve a core programme of additional support and technical assistance for enterprise cooperation, for clearing and payments arrangements, for trade-financing institutions, for the proposed establishment of an interregional trade-financing facility (ITFF), for development and cooperation in capital markets, for assistance to integration secretariats and for coordination with relevant supervisory bodies within Governments.

22. International support for ECDC, while only complementary to the central role of developing countries in the process, could play a major role in the success of ECDC. Indeed, the effective implementation of ECDC, whether at the interregional, regional or subregional level, requires a high level of support from the international community. The Committee might wish to consider ways in which support, comprising financial and other measures, provided by the developed countries, the international financial institutions and the international donor agencies to regional and subregional groupings and to specific ECDC initiatives and projects could be expanded and improved.

G. Sharing national experience and country policy review (paragraphs 6 and 7 of the terms of reference)

23. In spite of the variety of intergovernmental agreements signed by members of cooperation groupings, national economic policies often have not taken the ECDC dimension into consideration. In some cases, commitments were not observed by members or were suspended unilaterally at a time of crisis or political dispute. In some cases, national actions contradicted or significantly qualified cooperation commitments. Experience suggests that follow-up mechanisms are required in groupings in order to keep under review the twin questions of the implementation of commitments and the policy consistency of member States.

24. The economic problems which many developing countries experienced in their external sectors in the 1980s, their responses to these problems and the effects that these problems had on integration processes have brought into sharp focus the gap that exists between national economic policy-making and ECDC. Many developing countries are implementing national stabilization and structural adjustment programmes, and the impact of such programmes on neighbouring countries, especially other partners in the same grouping, needs to be taken into account. Successful economic integration requires a well defined macroeconomic and sectoral perspective and targets at the national level. However, it also depends on the existence of appropriate institutional arrangements and mechanisms, not only at the national level but also among the members of each grouping, in order to work out in a coherent and consistent manner how the development of one member State can be linked with that of other partner States.

25. Accordingly, the Standing Committee may wish to examine policy approaches and develop recommendations aimed at encouraging and promoting greater coordination between national and ECDC policies, enhancing their mutual compatibility and ensuring effective follow-up and implementation at the national level of decisions taken at the level of cooperation groupings. There is need to pay special attention to reconciling national stabilization and structural adjustment programmes with policies of regional and subregional integration.

26. The outcome of this consideration of a review of national policy experiences could identify particular examples of successful cooperation, on the basis of which it could reach common understandings, rooted in actual experience, on the requirements of policy harmonization and coordination. Such a review should yield an inventory of tested understandings on the sequencing of integration, together with a phased action plan and convergence agenda. 5/

H. Institutional issues (paragraphs 3, 6, 7 and 8 of the terms of reference)

27. The Committee might wish to consider two arrangements of an institutional nature. The first would involve a dialogue between the donor community (including Governments and their organizations) and the recipient groupings and their members in connection with section F above. This dialogue would assess regional projects and requests for external assistance in the light of their performance and short-and long-term development objectives and would involve policy discussions in this regard. Such an arrangement, which might be in the form of a joint consulting body on regional economic cooperation, would draw upon the assistance of UNCTAD with the participation of relevant organizations and experts.

28. The second arrangement would involve creating, in connection with section G above, a standing review mechanism for considering cooperation experience in accordance with paragraph 63 of the Cartagena Commitment and paragraphs 6 and 7 of the Committee's terms of reference. 6/ This would formulate recommendations on the basis of country studies, expert reports and inputs from the groupings and Governments concerned.

Notes

1/ "Less developed countries' members of groupings" refers to those countries which have been designated by individual groupings as being relatively less advanced economically in comparison to other member countries in the grouping. These less developed countries are specific to the individual groupings to which they belong and they do not necessarily bear any relationship to the "least developed countries" (LDC) designated by the General Assembly of the United Nations. For example, in the Caribbean Community, the Eastern Caribbean countries, none of which have LDC status, have been designated as less developed countries for the purposes of the Community.

2/ Further progress in removing barriers to South-South trade should ensue from the second phase of the GSTP negotiations which are to be undertaken in accordance with the decisions of the GSTP Negotiating Committee established by the Tehran Declaration of November 1991. These decisions provide for enlargement of the membership and of product coverage, as well as for identifying direct trade support measures.

3/ For a review of the situation of trade financing in developing countries, nationally and regionally, see: "Evaluation of performance and issues of trade financing in developing countries: The case for and the viability of an interregional facility: report by the UNCTAD secretariat" (TD/B/1300), 26 July 1991, and its supplements 1 and 2).

4/ The Ibero-American Electronic Stock Exchange Project launched in 1990 in Latin America affords an example of this type of cooperation.

5/ The construction of the European Community provides an excellent example of both an inventory of action (the so-called Lord Cockfield list) and sequencing of integration.

6/ The OECD has used the Economic and Development Review Committee for a similar review.